



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2011 Biennium

Bill #	SB0512	Title:	Educational tax credits
Primary Sponsor:	Windy Boy, Jonathan	Status:	As Introduced

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
Expenditures:				
General Fund	\$155,257	\$185,847	\$189,724	\$193,697
Revenue:				
General Fund	(\$18,415,766)	(\$18,415,766)	(\$18,415,766)	(\$18,415,766)
Net Impact-General Fund Balance:	<u>(\$18,571,023)</u>	<u>(\$18,601,613)</u>	<u>(\$18,605,490)</u>	<u>(\$18,609,463)</u>

Description of fiscal impact: This bill would provide an income tax credit for half of certain education expenses of elementary and high school students. It is expected to reduce general fund revenue by \$18.6 million per year.

FISCAL ANALYSIS

Assumptions:

1. This bill would allow an income tax credit for 50% of a taxpayer's qualified expenses for a dependent in elementary or secondary school. The credit would be limited to \$400 per taxpayer, and if the credit is more than the taxpayer's liability, the excess could not be refunded or carried forward to another year.
2. Qualified expenses include tuition and fees in a public or nonpublic elementary or secondary school during the school year or summer camps; fees for supplementary programs, such as tutoring, class trips, and driver's education; books and other instructional materials; computers and educational software; clothing or uniforms for physical education; fees and other costs for music classes and school-sponsored extracurricular activities; and equipment for shop, home economics, and art classes.
3. Taxpayers may claim the tax credit for each dependent who is under 19 years of age who is enrolled in full-time in kindergarten through 12th grade. A taxpayer may not claim the credit for a student that is enrolled part-time.
4. Of the 141,969 public school students enrolled in 2008-2009, 139,903 meet the criteria established in SB 512 of being enrolled full-time and younger than 19 years old. The eligible group comprises 98.5% of the total.

5. Of the 141,969 public school students enrolled in 2008-2009, 53.0% were elementary students, 15.3% were middle school students, and 31.7% were high school students. It is assumed that these same percentages apply to the public school students eligible under this bill.
6. Based on the enrollment count taken in October 2008 and applying a 98.5% eligibility rate, the eligible dependents enrollments are as follows:

Eligible Enrollment Type	Count	% of Total
Public Elementary School Enrollment	74,149	48.9%
Public Middle School Enrollment	21,405	14.1%
Public High School Enrollment	44,349	29.3%
Private School Enrollment	7,699	5.1%
Home School Enrollment	3,968	2.6%
Total Eligible Enrollment	151,570	100%

7. According to U.S. Census, American Community Survey 2005-2007 (Table S2501. Occupancy Characteristics), Montana has 369,329 households of which 16.5% have children between the ages of 6 and 17 years. If 151,570 eligible children live in 60,939 households, the average eligible Montana household has 2.5 eligible dependents.
8. This fiscal note assumes that all eligible households will claim the maximum credit to which they are entitled.
9. It is assumed that households with public school students in middle school or high school, private school students, or home school students will claim the maximum credit of \$400. Households with public school elementary students are assumed to claim \$200 on average.
10. Credits will be \$5,959,834 ($\$200 \times 48.9\% \times 60,939$) for elementary students and \$12,455,932 ($\$400 \times 51.1\% \times 60,939$) for all other students. Total annual credits will be \$18,415,766.
11. This credit would first be claimed on tax returns for 2009, filed in FY 2010. This credit will reduce general fund revenue by \$18,415,766 each fiscal year beginning in FY 2010.
12. Section 1(4) of the bill requires taxpayers to provide the Department of Revenue with documentation of expenses. The department would need to develop a form for taxpayers to provide this information with a cost of \$2,100 in FY 2010. With the large volume of anticipated credit claims, the department would need 2.00 FTE additional data processing technician positions and 2.00 FTE auditing technicians. The data processing positions would be aggregate positions filled with multiple temporary employees for part of the year. The two auditing technician positions would be filled in the middle of FY 2010. Personal services costs would be \$111,869 in FY 2010 and \$155,065 in later years. Operating costs would be \$21,888 in FY 2010 and \$30,784 in later years. One-time costs to set up the new positions would be \$19,400 in FY 2010. Changes to income tax forms and booklets and to the department's data processing system would be made as part of the annual update process with no additional monetary costs to the department.

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<u>Fiscal Impact:</u>				
FTE	4.00	4.00	4.00	4.00
<u>Expenditures:</u>				
Personal Services	\$111,869	\$155,063	\$158,940	\$162,913
Operating Expenses	\$23,988	\$30,784	\$30,784	\$30,784
Equipment	\$19,400	\$0	\$0	\$0
TOTAL Expenditures	<u>\$155,257</u>	<u>\$185,847</u>	<u>\$189,724</u>	<u>\$193,697</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$155,257	\$185,847	\$189,724	\$193,697
<u>Revenues:</u>				
General Fund (01)	(\$18,415,766)	(\$18,415,766)	(\$18,415,766)	(\$18,415,766)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$18,571,023)	(\$18,601,613)	(\$18,605,490)	(\$18,609,463)

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date